



Economic Update: The Political Economy Of Tariffs

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Richard Wolff: Welcome friends to another edition of Economic Update. A weekly program devoted to the economic dimensions of our lives and those of our children. I'm your host, Richard Wolff. I want to remind you to please send in suggestions and proposals of information or topics you'd like us to cover to Charlie Fabian, who's handling those for us. You can reach him at charlie.info438@gmail.com. Today's program is devoted to an issue that has come up so often over the years that periodically it's time to stop, take a little while, and go through it so it stops being abused, as is so often the case. I'm talking about tariffs and how they impact your job and everybody else's. The claim is made by the government of the United States, for example, President Biden, and by the way, the same argument is made by ex-President Trump, the argument goes like this: Tariffs, and I'll explain in a minute what those are, tariffs protect jobs. A tariff is good for your job. It protects it. And therefore it's good for us as a country to impose tariffs, because they protect jobs. Let me explain then what that means. First, a tariff is a tax. Don't be mystified by the name. It's just a special tax and so it came to acquire a special name. Here's how it works: A tariff applies only to a good or a service that is brought into the country from outside. Anything produced inside the country, sold inside the country is not affected by tariffs, they don't apply. A tariff is the name of a tax that applies uniquely and exclusively on imports. I'll give you a simple example. Suppose you like Italian wine, and you go to the local store and you buy a bottle of Italian wine. The price you will be asked to pay, may or may not say this, but here's what that price involves. First, the money paid by that wine shop to the producer of the wine in Italy. Let's say that's \$10. So the price of the wine shipped from Italy to the store where you buy it, ten bucks. A tariff is a tax on that. Let's suppose just for simplicity, it's a 20% tax. That means the wine shop owner will price that bottle at \$10, what he had to pay to the Italian wine maker, plus \$2, that's the tariffs, 20% of ten. And who gets that, Uncle Sam. Tariffs are paid to the United States government because it's the government that puts that tariff, that tax on the bottle of wine. So the cost to the shop is ten plus two, or 12 bucks for the wine. Now the shopkeeper wants to make a profit, too. That's his income. So he'll probably price the wine at somewhere between 15 and 20 bucks. He'll keep whatever is above \$12 that he charges, and he'll use the other \$2 to pay Uncle Sam and the other \$10 to the wine producer in Italy. That's

all. That's how this works. Okay, next step. The wine producers in California like there to be tariffs on wine, because that means that all wine coming in from Italy, France, Australia or anywhere else is going to have a higher price to you and me, the buyers of the wine. Because on top of whatever they charge for their wine, Uncle Sam is putting an extra charge, in this case 20%. Why do the California wine growers like this? Because it means the wines they compete against, the wines that compete with California wines are going to be more expensive than they would otherwise be. And the buyer is a bit more likely to buy the California wine, which doesn't have to pay a tariff, versus the Australian, the French, the Italian, the German wine that does when it comes into the country. So here's the simple story that producers all around the United States, if they're honest, will tell you: We like tariffs because it's competitively advantageous to us. We don't have to pay them. Our competitors from outside the country have to pay. And that means we're going to sell more California wines because they don't have to pay the tax. Their price doesn't have to reflect the tax, the way that happens with imported wines.

And out of that, you get the idea: Tariffs protect jobs. And, you know, to a point it's true. It means that people will keep their jobs in the California wine fields. The people who manage the vines, the people who till the soil, the people who package the wine, they'll keep their jobs because more California wines are sold. Why? Because you've hit the imported competitor with a tariff only paid by him, not by you folks in California. So it protects the jobs in the industries where tariffs are imposed on imported competing goods and services. And up to this point, everything is true. But the next sentence is false. That's the end of the story. That sentence is false. It's not the end of the story, because the tariff doesn't only affect the industry where the tariff is imposed. And I'll give you an example. But to do that, I'm going to shift from wine to automobiles. And I'm going to take an example that's right in the news today. Almost everywhere else in the world these days, you will see on the road electric cars and electric trucks produced in China, People's Republic of China. Why? Because the Chinese, having worked at it for a long time, are proudly able to say to the world, we have the best quality electric vehicles at the lowest price. And indeed they do. They have out-competed Tesla or anybody else. What does that mean? I'm going to give you the example. Let's assume the electric vehicle from China costs \$30,000, okay? That means an American producer, whether it's an American company like GM and Ford or a country out of the United States, but working inside the United States like VW or, any of the others, if you produce a car inside the United States, an electric car, it turns out that to do the same thing roughly as the Chinese do, you're going to have to spend more money. The Chinese are better at it, they out-competed everybody. So to produce a roughly comparable car would cost in the United States \$40,000, okay? You and I both know what's going to happen now, and so does everybody else. If the electric car was sold at what it cost to produce it, the Chinese car would sell for 30,000 and the American car for 40,000 and Americans, like everybody else, would buy the Chinese car. This makes the American car producers very unhappy. They can't make the profits from the electric car they want to make. Okay, so they went to Uncle Sam or in this case, President Biden, and they went to President Trump, and from both of them, they got tariffs on imported electric vehicles; especially those from China. Right now, here's the tariff 100%. That was just done a few weeks ago by President Biden. Here's what he did. He

made the automobile companies in America very happy. He went to Michigan and told the auto workers, I'm protecting your jobs because I put a 100% tariff on Chinese electric vehicles. So the \$30,000 Chinese electric vehicle in the United States will cost \$60,000. Not only will Americans be unable to buy Chinese cars at 30,000, but if they dare to bring one in, it'll cost them 30,000 plus a 100% tariff. In other words, double. Then they'll have to pay 60,000. And since GM, Ford, Toyota and others in the United States can produce comparable vehicles for about 40,000, here's what the American companies will realise. Now we are selling cars and trucks, electric ones in the United States and making a bundle. Why? We are protected. What protects us? The tariff. Because it makes it uneconomical for an American to spend \$60,000 when he could get a roughly comparable electric vehicle for \$40,000 from an American producer. But it's not because the American producer is more efficient, he isn't. He's less efficient. It's not because the American car is better quality. It isn't, it's less. The only reason American cars, electric cars and trucks are selling is because of a better competitor. Competing trucks from China in this case are disallowed by means of a tariff. In that sense, the jobs of American autoworkers are protected. Again, that part is true. But now I'm going to show you how others are hurt by that tariff.

The easiest way is to tell you that there are thousands of industries, thousands of corporations in America right now, that buy cars and trucks as inputs to whatever they make. Because a truck brings the inputs to their factory, and a truck takes them from the factory to the store where they're sold, because the truck brings them materials that they need, because automobiles are how their salespeople go around marketing the stuff. They buy fleets of cars and trucks, and they always have. Then I want to switch to electric. The whole world is doing that. They want to participate in that. They have to buy for themselves fleets of truck, fleets of cars. The most efficient thing for them to do, of course, would be to buy that first quality car or truck from China at the price, 30,000 bucks. But the tariff makes that impossible for them. They can't. They have to pay 40,000 or maybe even more that the American producers make, because they can get away with it because they're protected from competition from the Chinese vehicle. So every American company that buys fleets of cars and trucks has to pay more for them than they otherwise would if there weren't a tariff. And you know what that means. They have to pass on the extra cost of buying American, when they price their output. And since many of them produce goods sold in the rest of the world, they have to compete, here we go now, with other country's companies that are producing the same thing, but the other country's companies, when they buy fleets of cars and trucks, they can go to China and buy them for 30,000. Their American competitor can't do it, has to pay 40,000. And you know what that means? We're gonna suffer export losses. Customers around the world will buy from them because it's cheaper. Buy directly from China, no tariff. Buy from the United States, pay more, it's a tariff. Industries that are disadvantaged that way will not prevail. Jobs will be lost in all of that because they can't do what their competitors can do. I come to the end of the first half of today's show, stay with me. We'll continue this analysis of tariffs. Folks, I just want to remind you that donating to things like this is part of the relationship you have with us, and we with you. No, we're not in crisis. No, we're not desperate. I'm very proud that we're not. A good number of you have been very kind over a long period of time in helping us. But I do want to, from time to time, not only appreciate that, but tell you that

that's part of what we rely on to keep this process and this program going. So think about it, please, and know in advance, thank you.

Welcome back, friends, to the second half of today's Economic Update. We are analysing tariffs. And what we did in the first half was to show that the tariff when you impose it helps protect jobs, as Biden and Trump and officials tell us, but only really in the industry where the tariff applies. In my example, the automobile industry. American auto workers will have their jobs protected. But workers across the American economy will have their jobs jeopardised by a tariff on electric vehicles, because everywhere else in the world Americans will have a hard time competing with local companies in Europe, Asia, Africa, Latin America, because those companies there, when they buy trucks and cars, as fleets, as inputs to their business, they can buy from China at 30,000 a vehicle. Their American competitor cannot buy Chinese vehicles at 30,000. That's what the tariff makes impossible. They have to pay 60,000 because Mr. Biden has imposed a 100% tariff. So that disadvantage for the American company means they'll have to have prices that are higher than they otherwise would have, because they can't buy the cheap Chinese truck or car. And by having to price higher, they'll lose business. And when they lose sales of whatever they make, they lay off workers. Aha, so the tariff that protects auto workers' jobs jeopardises all kinds of other jobs in companies that have to pay more for the vehicles that they will now be buying. An honest politician, which neither Trump nor Biden on this subject are, would have to tell you that a tariff protects some jobs and destroys others because that's the truth. And so now it turns out a tariff is good for some workers and good for the profits of those companies, but not for others. And now I can explain to you what you might not have understood before. In every capitalist country, this kind of issue has always been there. There have been companies who saw profits in having free trade. No tariffs, no government intervention, the so-called free market. Because they thought, we don't want to have to pay higher prices, so we don't want tariffs. And then there were always other industries, like today's electric car industry, that needed tariffs. Not only to keep their profits, but to make any profits at all. So there's always a struggle and always has been between those companies that want tariffs, or protection it's called, that is by the way, called protectionism, when you interfere this way and those industries that don't. And whether we have a period of "free trade" or a period of "protectionism" is not some mystery, it doesn't fall from the skies which one we have. It's purely an outcome of a fight between two groups of capitalists. One of whom sees more profit with a tariff and the other one without one. And what we have, the rest of us who live in capitalist economies, we have to live with whichever one of those two groups of capitalist was the stronger. Now here's the problem. A tariff can only be put in by the government. So the two different groups of capitalists fight to persuade the government in one case, put on a tariff, in the other case leave off the tariff, and when you're trying to convince the politician, what do corporations do? Number one, they bribe, if and when they can. Number two, they donate to the candidate or the party. That's a polite term for bribe. Number three, they hire lobbyists to work with the politician. They do everything they can to get the tariff, if that's what's profitable, or to prevent the tariff if that's what's profitable. And then both capitalists, here we go now, want to persuade the public to go on their side. Because if you want tariffs and you can get public opinion to be for tariffs, you'll get it. If you don't, if the other side gets

the public opinion, you're going to have a harder time getting what you want. So there's an effort made. And so here we go: The people who want there to be tariffs in America right now want to see politicians go out there and help them develop public opinion, so it's in favour, so you can vote for the tariff I want and need. So they send out the president, the congressperson, the senator, to give a speech, to give a hundred speeches: Tariffs protect jobs. Of course, you don't tell the truth. It protects some jobs and it destroys others. Turns out you can't even know in advance which is the bigger effect. Will more jobs be protected than lost? Maybe; very hard to tell, very hard to measure and impossible to predict. They can't be honest, because what they do is a kind of advertising. And you know what advertising is, that's when you say everything real and everything you can get away with that's good about a product and you deny or hide everything that's bad. That's what advertisers are paid to do. It's a form of lying. And that's what the politicians do. If they're pro tariff, they'll tell you. Gee, that'd be great for everybody. Protect jobs. If they're against it, they'll tell you the stories about how it hurts jobs. Don't be fooled. If anything, that's the central message of today's program. When you hear descriptions of whether an economic policy is good or bad, please remember, in every case, it's neither one nor the other. It's a mixture. Some people gain, others lose. Some companies win, others don't. Some profits are protected, other profits are destroyed. It's usually that way. And an honest person, journalist, professor, politician will tell you that, be square with you, help you to understand the complexity rather than living in the fantasy land that it's all real simple. "If you just have this tariff, which I happen to want, everything will be best for everybody". Not true.

But I'm going to push a little harder because we're living in a time of tariffs. They've been going up more and more of them. It's only for about ten years now. Before that we had a period of "free trade". Otherwise known as neoliberalism or globalisation. We were told by the capitalists who wanted it to have free trade. You know what they wanted? They wanted to be able to leave the United States. Close their factories, offices and stores and open them in China and India and Brazil because they could get away with paying people a lot less wages and it would be so profitable to get away with low wages, it would pay more than you needed to ship that stuff all the way back to the American store where it sold, even though it was made in India or China or someplace else. So we were told free trade is best for everybody. Free trade is just the best thing. No honesty about who would win and who would lose. The losers got together. The people who lost over the last 30, 40 years of free trade, globalisation, they are now the backbone of support for Trump. They are also very upset with the Democratic Party because they associate them with supporting free trade, which they did. Both parties did because the capitalists who stood to gain got to both parties. Those capitalists are still around. They're still pushing for free trade. They don't like what's going on. They are fighting, as I told you, capitalists always have. But don't you be fooled. We shouldn't be fooled. We are now in a period of tariffs. So let's look a bit more in there to conclude. The tariff is what allows an American to face the fact that if you want an electric car, you're going to pay a lot more than you need to, because you're not going to be able to buy the cheaper, better electric car from China at 30 grand. You're going to have to pay 40 grand, which is what it costs to do that in the United States, but it'll actually cost you more. You know why? Because the American company now protected from the competition from China, why should

they stop and charge 40,000? They can charge 50,000. You still will buy it from them, because 50,000 is a lot less than what you'd have to pay if you tried to buy a Chinese car at a 100% percent tariff, that would be 60,000. So you know what we can say correctly? That tariffs, tariffs, boost prices. Tariffs make the prices we pay higher than they would otherwise be. Because that's the point. The point was to protect the American so they could sell at a higher price than we would have to pay if we bought it abroad. We wouldn't be affected by inflation if we didn't have the tariff. Which makes it worse. Now, what politician has been honest enough to say to you: On the one hand, we are fighting inflation. On the other hand, because we want to please the capitalists who want tariffs on electric cars, we're making the inflation worse. But okay, we're advertisers. We won't tell you about one of them. We'll tell you about saving jobs for auto workers. We won't tell you that we're worsening the inflation, that is itself a job killer. As prices go up, more and more people can't afford things. And if they can't afford things whose prices have gone up, there's less incentive for employers to hire people to produce when the price is too high for people to buy as much as before. So guess what? When you worsen inflation, it's bad for jobs. There we have it again. Some workers are protected, others are thrown under the bus.

Last point. We don't live in the world alone. If we put tariffs on things, it hurts foreigners. The Chinese electric car company can't sell as many cars in America because even though they only would want 30,000 for the car, Americans have to spend 60,000. So they're not going to buy the Chinese cars. That's bad for the Chinese. They don't like that. That hurts their profits, hurts their jobs. Guess what they can do. You know. They can retaliate. They can put tariffs on their country. So if we have American goods trying to be sold in China, they're going to have a higher price because a tariff is going to be put on them. The Chinese have already done that. They'll be doing it some more. You add that retaliation and its effects, more jobs are going to get lost in this country. Underscoring the reality. Don't be used as a tool. The working class is bombarded with false claims. Either that tariffs are a very good thing and we will all be better off, or that they are a very bad failure and we will all be worse off. They're both playing with you, with us, lining us up to support them, to get the tariff they want or to prevent the tariff they don't want. We're just being used. This is not our issue. We should fight for the jobs we need and want. Don't rely on capitalists to have a fight with one another and imagine they're concerned about your job. They aren't. They're concerned about their profits, and we ought to be concerned about what our lives are like. Don't be fooled. Thank you for your attention, and as always, I look forward to speaking with you again next week.

END

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